

Lane Reed Paper Co
1970

ANNUAL
REPORT
1970

AR20

Canadian Wallpaper
Manufacturers Limited

Canadian Wallpaper Manufacturers Limited

COMPARATIVE SUMMARY

	12 months ended December 31				
	1970	1969	1968	1967	1966
Net sales	\$36,097,498	\$34,998,066	\$32,079,399	\$24,694,239	\$19,381,448
Earnings from operations before taxes	2,861,152	2,691,584	3,003,274	2,130,714	1,960,704
Earnings from operations after taxes	1,272,152	1,217,584	1,365,274	1,037,714	949,704
Net earnings for the year, after extraordinary items	1,167,152	1,309,907	1,365,274	1,037,714	949,704
Working capital	5,320,516	6,999,490	4,953,037	4,142,236	3,778,664
Investment in property (<i>net</i>)	6,457,795	4,914,417	3,441,224	3,366,857	3,107,872
Shareholders' equity	10,783,797	10,081,931	9,237,310	8,285,623	7,609,798
Earnings per share from operations after taxes ...	9.84	9.42	10.56	8.03	7.35
Net earnings per share after extraordinary items	9.03	10.13	10.56	8.03	7.35
Dividends paid	3.60	3.60	3.20	2.80	1.40
Equity per common share	83.44	78.00	71.47	64.11	58.89

DIRECTORS

B. S. BUMSTEAD

*J. R. CRAIG

P. T. DAHLE

R. F. INCH,
*Managing Director,
The Wall Paper Manufacturers Limited,
London, England*

K. C. LOGAN, Ph. D.,
*Director of Research,
Anglo-Canadian Pulp and Paper Mills Limited,
Quebec City*

*R. C. MacGILLIVRAY, C.A.

*J. A. MULLIN, Q.C.,
partner, Fraser & Beatty, Toronto

*M. L. PEMBLE,
President, The Birge Company Inc., Buffalo, N.Y.

D. ROBB,
President, Dominion Colour Corporation Limited, Toronto

*B. D. ROSE,
President, Acme Paper Products Co. Ltd., Toronto

S. T. RYDER,
*Chairman, Reed International Limited, and
Chairman, The Wall Paper Manufacturers Limited,
London, England*

W. E. SOLES,
*President and General Manager,
Anglo-Canadian Pulp and Paper Mills Limited,
Quebec City*

H. SUTHERLAND,
partner, Fraser & Beatty, Toronto

S. W. WILBUR

OFFICERS

Chairman — S. T. RYDER

President — J. R. CRAIG

Senior Vice-President — R. C. MacGILLIVRAY, C.A.

*Vice-President, and General Manager,
Sunworthy Division* — B. S. BUMSTEAD

*Vice-President,
Marketing* — A. A. CROWELL

Secretary-Treasurer — K. M. CHALMERS, C.A.

HEAD OFFICE: Two Hundred and Twenty-Two
Seventh Street, Toronto

TRANSFER AGENT & REGISTRAR: National Trust
Company, Limited Toronto - Montreal - Winnipeg

AUDITORS: Price Waterhouse & Co., Toronto

BANKERS: Canadian Imperial Bank of Commerce,
Toronto

LEGAL COUNSEL: Fraser & Beatty, Toronto

Canadian Wallpaper Manufacturers Limited

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS OF THE COMPANY

Your directors take pleasure in submitting the following report on the Company's operations for the year ended December 31, 1970.

SALES AND EARNINGS

Sales in 1970 amounted to \$36,097,498, a 3% increase over 1969 sales of \$34,998,066.

Net earnings from operations after taxes were \$1,272,152, an increase of \$54,568 or almost 5% over the 1969 earnings from operations after taxes of \$1,217,584. Earnings per share from operations in 1970 amounted to \$9.84, compared with \$9.42 per share in 1969.

Continued strength and profitability were recorded in the wallcoverings and merchandising divisions, and the paint division made a marginal improvement in profitability. For the reasons outlined below, Dominion Colour Corporation recorded a significant downturn in earnings, and offset much of the improvement recorded in other divisions.

On June 1, 1970, the Canadian dollar was freed from its former fixed rate of exchange, and by December 31 had increased about 7% in value in relation to the U.S. dollar. As a result, a provision for possible loss on foreign exchange of \$105,000 on the Company's investment in and advances to U.S. subsidiaries has been recorded (during 1969 a gain on foreign exchange of \$92,323 was recorded).

Net earnings for the year, after the extraordinary items referred to above, amounted to \$1,167,152 or \$9.03 per share in 1970 and \$1,309,907 or \$10.13 per share in 1969.

FINANCIAL POSITION

With completion of the Dominion Colour plant at Ajax in 1970 and the acquisition of a 75% interest in Sertex Corporation, referred to below, investment in property, plant and equipment amounted to more than \$1.6 million during the year and the net book value on December 31 was more than \$6.5 million.

Retained earnings were increased by \$701,866 during the year and at December 31, 1970 shareholders' equity or net worth of the Company amounted to \$10,783,797 or \$83.44 per share, compared with \$78.00 per share at the previous year end.

OPERATIONS

WALLPAPER AND WALLCOVERINGS

Continuing the trend of the past two years, the Sunworthy Division again achieved new records in both sales and earnings. Various factors contributed to this growth. The installation of new equipment and new production controls placed the Division in an excellent service position for the year. National media advertising brought about increased sales of the new dry-strippable vinyl wallcloth lines. New printing techniques and broader design capabilities enhanced the general acceptance of new lines in both the domestic and overseas markets.

Sunworthy has now installed flock processing equipment. This will allow for the first production of machine-printed flocks in Canada, and is expected to have a favourable impact on future earnings.

The Birge Company made substantial gains in sales volume, again reaching a record high. Earnings were not commensurate with sales growth due to unforeseen production problems associated with the introduction of the Company's first fabric-backed vinyl line. The line is, however, an essential addition to the Birge product mix, and steps have been taken to overcome these initial production problems and to improve general production efficiency. Plans are also underway to re-direct the Company's marketing efforts toward greater market penetration and future growth.

In October, your Company acquired a controlling interest in Sertex Corporation located in Paterson, New Jersey. A progressive manufacturer of vinyl wallcoverings, Sertex will provide valuable expertise

and technical capabilities for future expansion in this particular product category.

PAINT

Although Paint Division sales fell slightly below those of the previous year, earnings improved. The division's shortfall in sales reflects a continued industry-wide softening of trade paint sales aggravated by prolonged unrest in the west in the construction industry and in the labour market. Improvement in the earnings performance was brought about by carefully planned cost reduction programs, as forecast in the last annual report.

In the east, where an extensive program of re-organization has been completed, management is now modernizing the Division's image through the introduction of a new colouring system, together with changes in logo style and package design. Greater solidarity in dealer relationships is already apparent. The division is therefore in a position this year to focus its attention on renewed growth.

MERCHANDISING

Empire Wallpaper & Paint again reported record sales and earnings. Training programs aimed at upgrading the Company's service image, and continued expansion of its product range, particularly through the addition of exclusive lines, have proved most successful. Last year's annual report announced Empire's move to a larger central warehouse support facility as a base for further growth. Efforts in this direction continue with extensive improvements to the Company's Montreal facility scheduled for completion early in 1971. Similar steps are planned throughout the year in respect of several other locations.

Studies conducted during the year have culminated in the recent formation of a new retail division. Operating under the name, 'Decomart', the new division's immediate assignment is to open two pilot stores in Toronto in the spring of 1971. Merchandising will cover a wide range of home decorative products with particular emphasis on paint. Future plans for the new division are still in the developmental stage.

PIGMENT COLOUR

Dominion Colour fell short of its earnings objective for the year despite an increase in sales. This can be attributed to increased raw material costs and

to higher than anticipated manufacturing expenses resulting from delays in the start-up of operations at the Ajax plant.

Although six months behind schedule, due to delays in equipment delivery, the Ajax plant began operations on a commercial scale in October, becoming fully equipped and staffed by year-end. Scheduled increases in production output will relieve the current strain on production facilities at the Etobicoke plant, and can be expected to result in a considerable improvement in production efficiency.

Results from the re-organization of the company's Export Department are most encouraging. Further gains in this area can be expected with the additional output from the Ajax plant.

MANAGEMENT

During 1970, P. T. Dahle retired due to ill health and his management responsibilities were undertaken by M. H. Keeler, who was appointed President of General Paint Corporation of Canada Limited and F. B. Collen, appointed President of Crown Diamond Paints Limited. G. B. Ross, formerly Vice President and General Manager, was appointed President of Empire Wallpaper & Paint Limited.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Head Office of the Company, 222 - 7th Street, Etobicoke, Ontario, on Wednesday, the 31st day of March 1971 at the hour of 10:30 a.m.

The results for 1970 are a reflection of the continued enthusiasm and loyalty of our employees, which is appreciated.

Submitted on behalf of the Board.

S. T. RYDER
Chairman

March 10, 1971

**Canadian Wallpaper
Manufacturers Limited**

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1970

(WITH COMPARATIVE FIGURES FOR 1969)

	1970	1969
SALES AND OTHER INCOME:		
Net sales	\$36,097,498	\$34,998,066
Other income	79,804	57,590
	<u>36,177,302</u>	<u>35,055,656</u>
COSTS AND EXPENSES (note 3):		
Cost of goods sold	23,408,696	22,307,119
Selling and distribution	6,630,598	6,993,507
General and administrative	3,276,856	3,063,446
	<u>33,316,150</u>	<u>32,364,072</u>
Earnings before income taxes	2,861,152	2,691,584
INCOME TAXES:		
Current	1,434,000	1,426,000
Deferred	155,000	48,000
	<u>1,589,000</u>	<u>1,474,000</u>
Net earnings for the year before extraordinary item	1,272,152	1,217,584
Provision for possible loss (realized gain) on foreign exchange	105,000	(92,323)
Net earnings for the year	1,167,152	1,309,907
Retained earnings at beginning of year	7,433,449	6,588,828
	<u>8,600,601</u>	<u>7,898,735</u>
Dividends paid (1970 and 1969 - \$3.60 per share)	465,286	465,286
Retained earnings at end of year	<u>\$ 8,135,315</u>	<u>\$ 7,433,449</u>
Earnings per share —		
Before extraordinary item	\$ 9.84	\$ 9.42
After extraordinary item	\$ 9.03	\$10.13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

1. Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries, including a 75% owned subsidiary from the effective date of its acquisition on October 31, 1970.

2. Depreciation:

Effective from January 1, 1970, the Company changed its method of depreciation from maximum rates allowed under Income Tax Regulations to a straight line basis. This change has no material effect on the net earnings for the year ended December 31, 1970.

3. Costs and expenses include:

	1970	1969
Depreciation and amortization	\$ 419,037	\$ 361,012
Remuneration of directors and senior officers	302,912	273,274
Interest on borrowed funds, including interest of \$300,125 in 1970 and \$85,600 in 1969 on long term debt ...	755,209	484,280

4. Inventories valued at the lower of cost or net realizable value:

Raw materials and supplies	\$1,899,618	\$1,377,763
Work in process	706,303	546,401
Finished goods	7,100,758	6,899,218
	<u>\$9,706,679</u>	<u>\$8,823,382</u>

5. Property, plant and equipment:

	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 597,585	\$ —	\$ 597,585
Buildings	5,091,793	2,454,653	2,637,140
Machinery and equipment	7,800,635	4,746,694	3,053,941
Leasehold improvements	161,777	100,366	61,411
Construction in progress	169,129	—	169,129
Total December 31, 1970	<u>\$13,820,919</u>	<u>\$7,301,713</u>	<u>\$6,519,206</u>
Total December 31, 1969	<u>\$11,914,585</u>	<u>\$6,933,715</u>	<u>\$4,980,870</u>

ION

	1969
310	\$ 30,593
506	6,054,757
305	521,502
679	8,823,382
328	443,328
128	<u>15,873,562</u>

611	2,050,633
885	4,420,412
145	699,583
971	338,444
000	1,365,000
512	<u>8,874,072</u>

516	6,999,490
206	4,980,870

507	82,512
047	—
142	1,302,302
000	84,000
1	1

797	<u>1,468,815</u>
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519	13,449,175
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348	3,151,244
000	216,000
374	—
722	<u>3,367,244</u>

797	<u>\$10,081,931</u>
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482	\$ 2,648,482
315	7,433,449
797	<u>\$10,081,931</u>

GILLIVRAY, Director

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

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Manufacturers Limited
and
Subsidiary Companies**

CONSOLIDATED

SALES AND OTHER INCOME

Net sales
Other income

COSTS AND EXPENSES

Cost of goods sold
Selling and distribution
General and administrative

Earnings before income taxes

INCOME TAXES:

Current
Deferred

Net earnings for the year

Provision for possible losses

Net earnings for the year

Retained earnings

Dividends paid (1970)

Retained earnings

Earnings per share

Before extraordinary items

After extraordinary items

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1970

6. Long term debt:	1970	1969
Capital Bank Loan (see below)	\$2,718,750	\$3,000,000
6¾% First Mortgage Sinking Fund Bonds of General Paint Corporation of Canada Limited (sinking fund requirement \$25,000 annually 1971-1986)	400,000	425,000
Mortgage Note and equipment purchase loan of The Birge Company, Inc., repayable in 1971-1972	90,069	64,688
	<u>\$3,208,819</u>	<u>\$3,489,688</u>
Less: instalments due in 1971, included in current liabilities	463,971	338,444
	<u>\$2,744,848</u>	<u>\$3,151,244</u>

While the bank loans are payable on demand, arrangements have been made for repayment of a capital loan, bearing interest at 8¾% at December 31, 1970, in quarterly instalments of \$93,750 in 1971 to 1978.

As collateral security for current and long term bank indebtedness aggregating \$5,242,750, the Company and certain of its subsidiaries have each pledged demand debentures in the amount of \$7,000,000 secured by first floating charges on their assets.

7. *Translation of foreign currency:*
Current assets and current liabilities of the United States subsidiary companies at December 31, 1970 have been translated to Canadian currency at the rate of exchange prevailing on that date. Other assets and liabilities have been translated at historical rates. Sales, costs and expenses have been translated at the average rate of exchange for 1970.

8. *Commitments:*
The Company has annual lease commitments as at December 31, 1970 aggregating \$1,369,719. The minimum annual payments required in each of the next five years are:

1971	\$428,490
1972	317,497
1973	213,857
1974	153,266
1975	90,162

Unfunded past service benefits under pension plans of a subsidiary company aggregated approximately \$675,000 at December 31, 1970, of which the estimated unfunded vested benefits amount to \$400,000. The unfunded past service benefits are being amortized over a period not to exceed 30 years.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 1970

(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1969)

CURRENT ASSETS:	1970	1969
Cash	\$ 22,310	\$ 30,593
Accounts receivable	5,630,506	6,054,757
Owing from affiliated companies	550,305	521,502
Inventories (note 4)	9,706,679	8,823,382
Prepaid expenses and other assets	635,328	443,328
	<u>16,545,128</u>	<u>15,873,562</u>
CURRENT LIABILITIES:		
Bank advances (note 6)	3,848,611	2,050,633
Accounts payable and accrued liabilities	4,888,885	4,420,412
Income and other taxes payable	588,145	699,583
Current portion of long term debt	463,971	338,444
Notes payable to parent company	1,435,000	1,365,000
	<u>11,224,612</u>	<u>8,874,072</u>
WORKING CAPITAL	5,320,516	6,999,490
PROPERTY, PLANT AND EQUIPMENT (note 5)	6,519,206	4,980,870
OTHER ASSETS:		
Long term receivables	47,607	82,512
Due from affiliated company	253,047	—
Premium on acquisition of shares of subsidiaries	1,632,142	1,302,302
Licences at cost less amortization	174,000	84,000
Designing, cutting and engraving	1	1
	<u>2,106,797</u>	<u>1,468,815</u>
WORKING CAPITAL AND OTHER ASSETS	13,946,519	13,449,175
DEDUCT:		
Long term debt (note 6)	2,744,848	3,151,244
Deferred income taxes	371,000	216,000
Minority interest	46,874	—
	<u>3,162,722</u>	<u>3,367,244</u>
EXCESS OF ASSETS OVER LIABILITIES	<u>\$10,783,797</u>	<u>\$10,081,931</u>
SHAREHOLDERS' EQUITY:		
Capital stock — Common shares without nominal or par value —		
Authorized — 300,000 shares		
Issued — 129,246 shares	\$ 2,648,482	\$ 2,648,482
Retained earnings	8,135,315	7,433,449
	<u>\$10,783,797</u>	<u>\$10,081,931</u>

Approved on behalf of the Board:

J. R. CRAIG, Director

R. C. MacGILLIVRAY, Director

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1970
(WITH COMPARATIVE FIGURES FOR 1969)

<i>SOURCE OF FUNDS:</i>	1970	1969
Net earnings for the year ended December 31	\$1,167,152	\$1,309,907
Add —		
Depreciation and amortization	419,037	361,012
Realized gain on foreign exchange	—	(92,323)
Deferred income taxes	155,000	48,000
Funds provided from operations	1,741,189	1,626,596
Increase in minority interest	46,874	—
Increase in long term debt (<i>net</i>)	—	2,661,257
Decrease in long term receivables	34,905	40,605
	<u>1,822,968</u>	<u>4,328,458</u>
 <i>USE OF FUNDS:</i>		
Investment in, and working capital financing of, subsidiary company at date of acquisition	655,546	—
Investment in plant and equipment (<i>net</i>)	1,621,667	1,816,719
Acquisition of licence	100,000	—
Dividends	465,286	465,286
Repayment of long term debt	406,396	—
Advance to affiliated company	253,047	—
	<u>3,501,942</u>	<u>2,282,005</u>
Increase (decrease) in working capital	(1,678,974)	2,046,453
Working capital at beginning of year	6,999,490	4,953,037
Working capital at end of year	<u>\$5,320,516</u>	<u>\$6,999,490</u>

AUDITORS' REPORT

To the Shareholders of

Canadian Wallpaper Manufacturers Limited:

We have examined the consolidated statement of financial position of Canadian Wallpaper Manufacturers Limited and its subsidiaries as at December 31, 1970 and the consolidated statements of earnings and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 8, 1971.

PRICE WATERHOUSE & CO.
Chartered Accountants.

SUNWORTHY DIVISION

THE BIRGE COMPANY, INC.

CROWN DIAMOND PAINTS LIMITED

DOMINION COLOUR CORPORATION LIMITED

EMPIRE WALLPAPER & PAINT LIMITED

GENERAL PAINT CORPORATION OF CANADA LIMITED

SERTEX CORPORATION

**Canadian Wallpaper
Manufacturers Limited
and
Subsidiary Companies**

